

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,874	\$5,159	\$5,188	\$28	0.5%
Contingent & Back of Bill Reductions	0	-110	-29	81	
Adjusted General Fund	\$4,874	\$5,049	\$5,159	\$109	2.2%
Special Fund	1,126	2,490	1,929	-561	-22.5%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted Special Fund	\$1,126	\$2,490	\$1,926	-\$565	-22.7%
Reimbursable Fund	31,058	34,907	37,095	2,187	6.3%
Adjusted Reimbursable Fund	\$31,058	\$34,907	\$37,095	\$2,187	6.3%
Adjusted Grand Total	\$37,059	\$42,447	\$44,179	\$1,732	4.1%

- There is a negative fiscal 2014 deficiency of \$51,000 in cost containment reductions related to anticipated cost savings in bank fees.
- The fiscal 2015 allowance increases by \$1.7 million over the current year working appropriation. Most of the increase occurs in reimbursable funds and represents an increase in insurance coverage costs through the State Insurance Trust Fund.
- The special fund decrease of \$565,000 is primarily the result of decreasing variable rate issuance costs for two bond sales in fiscal 2014 to one bond sale in fiscal 2015.

Note: Numbers may not sum to total due to rounding.

For further information contact: Hannah E. Dier

Phone: (410) 946-5530

Personnel Data

	FY 13	FY 14	FY 15	FY 14-15
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	57.00	57.00	57.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	57.00	57.00	57.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	2.10	3.68%
Positions and Percentage Vacant as of 12/31/13	9.00	15.79%

- The number of both regular positions and contractual full-time equivalents remains unchanged between the current year and the allowance.
- The State Treasurer's Office (STO) had 9 positions vacant as of the end of calendar 2013 for a vacancy rate of 15.8%. The majority of these positions is part of a reorganization of the banking and investment functions. In fiscal 2013 and 2014, STO has been working with the Department of Budget and Management to reclassify positions to best reflect the needs of the agency.

Analysis in Brief

Major Trends

Bank Accounts Are Reconciled Timely: Despite the continued increase in both the number and total dollar amount of transactions, the average number of days to reconcile accounts has remained under four days since fiscal 2008.

Investment Earnings Are Maximized: The economic downturn has reduced the rate of return on investments, but the State's return has continued to be greater than the 90-day Treasury Bill rate.

Claims Are Adjusted Accurately and Timely: In fiscal 2013, STO closed 324 more claims than were opened during the year. This trend is projected to continue.

Recommended Actions

1. Correct technical errors for executive pay plan positions.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation bond issues, and through the Capital Debt Affordability Committee, reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The State Treasurer annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer's Office (STO) are to:

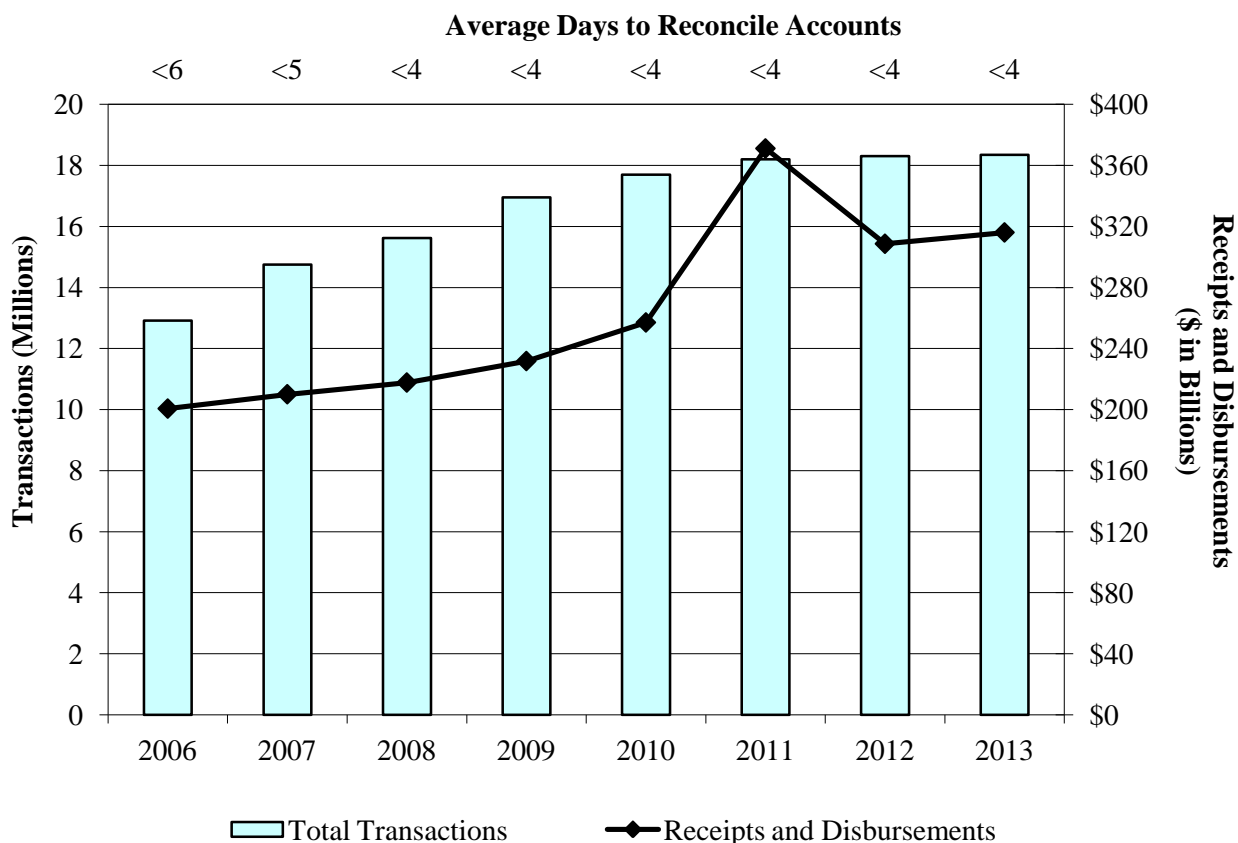
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law;
- maintain and enhance the information technology capability and infrastructure to meet the diverse needs of STO and the agencies it serves; and
- process all agency and third party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

1. Bank Accounts Are Reconciled Timely

As shown in **Exhibit 1**, the number and dollar value of total receipts and disbursements from the bank accounts administered by STO have increased since fiscal 2006. Despite the continued increase in both the number and total dollar amount of transactions, the average number of days to reconcile accounts has remained under 4 days since fiscal 2008. This is a dramatic improvement over the 30 plus days it was taking for reconciliations at the beginning of that decade. The spike in fiscal 2011 in the dollar amount of receipts and disbursements reflects the policy adopted in response to the financial crisis to keep higher liquid balances. These balances were invested over night, resulting in an increased volume of outflows and inflows. As the markets settled down, balances were invested for longer periods.

Exhibit 1
Total Receipts and Disbursements and Days to Reconcile All Accounts
Fiscal 2006-2013

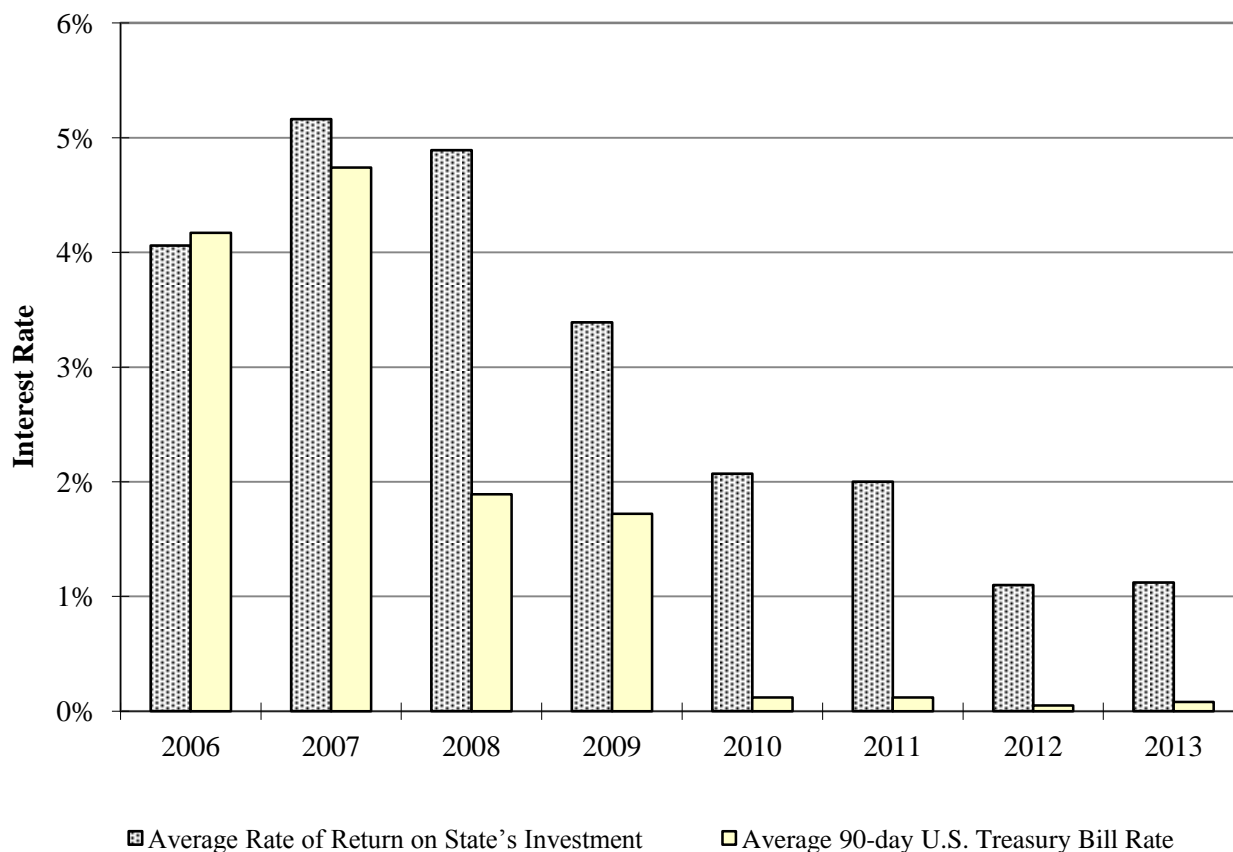


Source: Governor's Budget Books, Fiscal 2008-2015

2. Investment Earnings Are Maximized

STO is responsible for maximizing investment earnings for the State's surplus funds. It is limited by law in the types of investments it may make. **Exhibit 2** compares the rate of return on the State's investment portfolio to the average 90-day U.S. Treasury Bill rate. The economic downturn has reduced the rate of return on investments, but the State's return has continued to be greater than the 90-day Treasury Bill rate. Fiscal 2013 is the first year that the rate of return on investments saw a slight increase since 2007.

Exhibit 2
Comparison of the State’s Investment Portfolio and 90-day U.S. Treasury Bill Rates
Fiscal 2006-2013

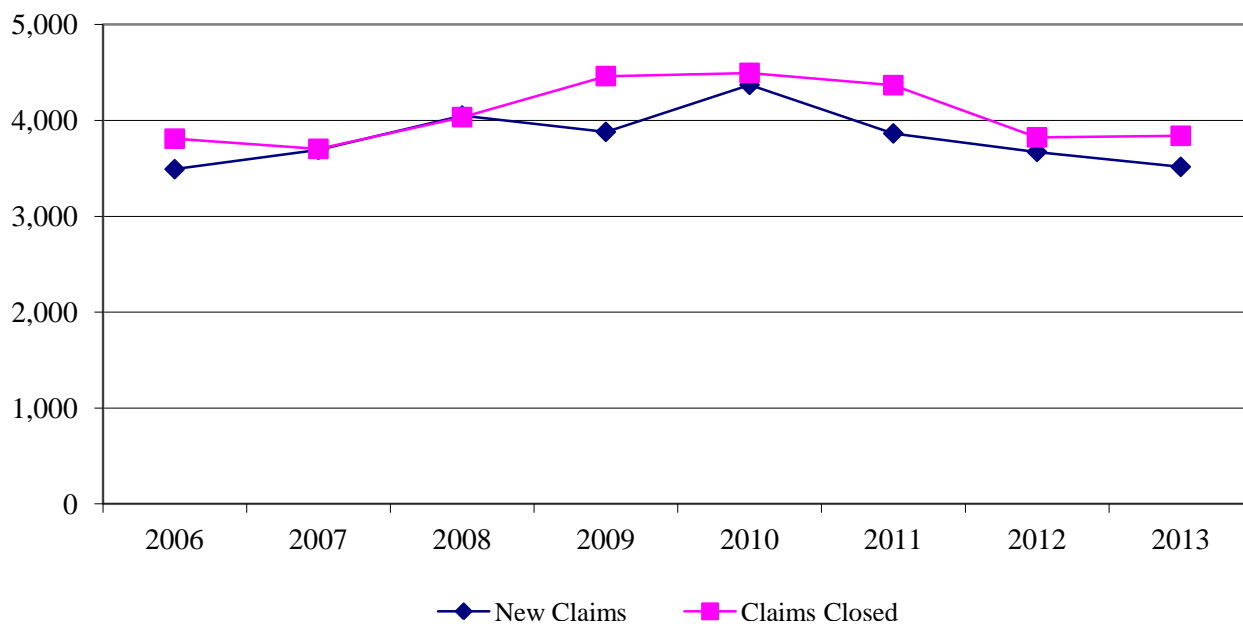


Source: Governor's Budget Books, Fiscal 2008-2015

3. Claims Are Adjusted Accurately and Timely

STO is responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. **Exhibit 3** compares the number of new claims received with the number of claims closed. In fiscal 2013, there were 324 more claims closed than were opened.

Exhibit 3
New Claims vs. Claims Closed
Fiscal 2006-2013



Source: Governor's Budget Books, Fiscal 2008-2015

Fiscal 2014 Actions

Proposed Deficiency

There are three across-the-board withdrawn appropriations. This includes reductions to employee/retiree health insurance, funding for a new Statewide Personnel information technology system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, the Department of Information Technology, and the State Retirement Agency, respectively.

Cost Containment

The fiscal 2014 working appropriation decreases by \$51,000 due to anticipated savings in bank fees from implementation of controlled disbursements and increased utilization of online versus paper reporting for daily Address Resolution Protocol (ARP) reports. Additionally, STO has already reverted \$200,000 in fiscal 2014 by delaying implementation of its new cash management system. Due to programming changes within the Treasury Management Division related to Payee Positive Pay and Controlled Disbursements and agencywide staffing reorganization, STO will not be able to initiate this project in fiscal 2015.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2015 allowance for STO increases by \$1.7 million over the current year working appropriation. Personnel expenses add a net \$263,000 with increases driven by retirement contributions, increments and other compensation, and reclassifications. The bulk of the nonpersonnel-related increase occurs in insurance coverage, which increases by \$2.0 million. There is a reduction of \$564,000 in special funds for bond sale expenses in fiscal 2015 because the allowance includes variable rate issuance costs for only one bond sale, whereas the fiscal 2014 working appropriation includes costs for two bond sales.

Exhibit 4 Proposed Budget State Treasurer (\$ in Thousands)

How Much It Grows:	General <u>Fund</u>	Special <u>Fund</u>	Reimb. <u>Fund</u>	<u>Total</u>
2014 Working Appropriation	\$5,049	\$2,490	\$34,907	\$42,447
2015 Allowance	<u>5,159</u>	<u>1,926</u>	<u>37,095</u>	<u>44,179</u>
Amount Change	\$109	-\$565	\$2,187	\$1,732
Percent Change	2.2%	-22.7%	6.3%	4.1%

Where It Goes:

Personnel Expenses

Annualization of fiscal 2014 increments and general salary increase.....	\$161
Increments and other compensation.....	86
Employee and retiree health insurance.....	-115
Retirement contribution rate change	78
Reclassifications.....	42
Other fringe benefit adjustments	11

Operations

Insurance coverage.....	2,028
Fiscal and administrative services.....	111
Check printing costs	36
Savings in disbursement banking fees	-64
Delayed replacement of high speed check printer.....	-107
Bond sale expenses	-564
Other Changes	29
Total	\$1,732

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and the State Retirement Agency.

Recommended Actions

1. Amend the following language:

STATE TREASURER’S OFFICE

Executive V	9905	112,105
Executive V	9905	99,799
		<u>104,000</u>
Executive V	9905	84,217
<u>Executive V</u>	<u>9905</u>	<u>102,639</u>
<u>Executive V</u>	<u>9905</u>	<u>107,454</u>

Explanation: This language is a technical correction to Section 12 of the budget bill and corrects technical errors for executive pay plan positions. Funding is already included in the fiscal 2015 budget allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets State Treasurer's Office (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$5,118	\$2,602	\$0	\$33,321	\$41,041
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	15	0	0	15
Reversions and Cancellations	-243	-1,491	0	-2,263	-3,998
Actual Expenditures	\$4,874	\$1,126	\$0	\$31,058	\$37,058
Fiscal 2014					
Legislative Appropriation	\$5,119	\$2,486	\$0	\$34,907	\$42,512
Budget Amendments	40	5	0	0	45
Working Appropriation	\$5,159	\$2,490	\$0	\$34,907	\$42,557

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 budget for STO closed approximately \$4.0 million below the legislative appropriation. During fiscal 2013, \$15,233 in special funds was added by budget amendment for cost-of-living adjustments. This was more than offset by year-end reversions and cancellations totaling \$4.0 million. General fund reversions totaled \$243,412 and represent a high number of vacancies, unexpended bank fees, and reduced usage of financial advisor services and legal counsel related to bond sales. In fiscal 2013, State agencies were assessed a fee for development of a new Statewide Personnel System. That year, the State spent approximately 48% of this major information technology project's appropriated budget, with the remainder reverted to the general fund. As a result, STO reverted \$9,466 in general funds. Special fund cancellations totaled \$1.5 million. A total of \$1.3 million of the special fund cancellation is the result of non-issuance of variable rate debt due to unfavorable market conditions and the consolidation of a refunding issuance resulting in cost savings. The remainder of the special fund cancellation (\$192,966) reflects salary savings from a high number of vacancies as well as cost savings for bank fees. The reimbursable fund cancellation of \$2.3 million resulted from personnel savings associated with the elimination of the Tort Litigation Unit, salary savings from position vacancies, and unneeded capital lease payments due to the deferral of the purchase of a new check printer.

Fiscal 2014

The fiscal 2014 working appropriation for STO has increased by \$45,022 over the legislative appropriation reflecting \$40,391 in general funds and \$4,631 in special funds for employee increments and the 3% general salary increase.

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	57.00	57.00	57.00	0.00	0%
Total Positions	57.00	57.00	57.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 4,523,257	\$ 5,348,893	\$ 5,593,154	\$ 244,261	4.6%
02 Technical and Spec. Fees	782	2,000	2,650	650	32.5%
03 Communication	65,541	72,287	74,487	2,200	3.0%
04 Travel	20,527	7,550	10,700	3,150	41.7%
07 Motor Vehicles	5,045	7,039	4,570	-2,469	-35.1%
08 Contractual Services	3,469,092	5,618,264	5,122,450	-495,814	-8.8%
09 Supplies and Materials	159,051	187,054	166,318	-20,736	-11.1%
10 Equipment – Replacement	14,510	106,956	0	-106,956	-100.0%
11 Equipment – Additional	2,484	0	0	0	0.0%
13 Fixed Charges	28,798,273	31,206,847	33,237,023	2,030,176	6.5%
Total Objects	\$ 37,058,562	\$ 42,556,890	\$ 44,211,352	\$ 1,654,462	3.9%
Funds					
01 General Fund	\$ 4,874,280	\$ 5,159,333	\$ 5,187,629	\$ 28,296	0.5%
03 Special Fund	1,126,055	2,490,290	1,929,162	-561,128	-22.5%
09 Reimbursable Fund	31,058,227	34,907,267	37,094,561	2,187,294	6.3%
Total Funds	\$ 37,058,562	\$ 42,556,890	\$ 44,211,352	\$ 1,654,462	3.9%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Treasury Management	\$ 6,039,423	\$ 6,844,502	\$ 6,781,943	-\$ 62,559	-0.9%
01 Insurance Management	1,553,099	2,621,441	2,856,978	235,537	9.0%
02 Insurance Coverage	28,761,007	31,179,072	33,206,956	2,027,884	6.5%
01 Bond Sale Expenses	705,033	1,911,875	1,365,475	-546,400	-28.6%
Total Expenditures	\$ 37,058,562	\$ 42,556,890	\$ 44,211,352	\$ 1,654,462	3.9%
General Fund	\$ 4,874,280	\$ 5,159,333	\$ 5,187,629	\$ 28,296	0.5%
Special Fund	1,126,055	2,490,290	1,929,162	-561,128	-22.5%
Total Appropriations	\$ 6,000,335	\$ 7,649,623	\$ 7,116,791	-\$ 532,832	-7.0%
Reimbursable Fund	\$ 31,058,227	\$ 34,907,267	\$ 37,094,561	\$ 2,187,294	6.3%
Total Funds	\$ 37,058,562	\$ 42,556,890	\$ 44,211,352	\$ 1,654,462	3.9%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.